

# CDIAC

Advanced Concepts and Practices for  
Investing Public Funds  
November 16 & 17, 2006

## Dealing with the Street: A Public Funds Perspective

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# Goal of the Presentation

- To clarify the role of a Broker/Dealer in the financial markets and talk about how a Public Agency can ensure that their interests are served when conducting business with Broker/Dealers in the Fixed Income market.

# The Role of the Broker/Dealer

- Constantly evolving and changing from providing access to information to filtering and interpreting information.
- To provide access to markets and execution of transactions.
- To provide research
  - Economic and interest rate analysis and forecasting
  - Credit Analysis
- To provide strategy and advise
  - Portfolio analytics
  - Asset allocation
  - Duration, convexity and yield curve strategy
  - Portfolio structure recommendations
  - Educational resource

# Broker/Dealer vs Investment Advisor

- Broker/Dealer typically transaction based compensation, not fee based
- Regulated by and registered with the SEC under the Securities Exchange Act of 1934
- Broker/Dealer required to make suitable and appropriate recommendations
- Investment Advisor is a fiduciary-A person or firm entrusted with assets of another entity who must act solely for the client's benefit in these matters and not for the fiduciary's own personal interest.

## Primary Dealer

Dealers and Banks that can buy and sell government securities while working directly with the Federal Reserve Bank of New York

## Dealer vs Broker

Dealer underwrites and inventories securities

Broker puts a seller and a buyer together

## Institutional vs Retail Broker

Access to institutional traders, inventories and analysts

# How can a Public Agency ensure its interests are served?

- Optimal number of Broker/Dealers
- Formal approval process
- Broker/Dealer questionnaire
- Develop an effective relationship
- Operational issues
- Broker/Dealer compensation
- Effective transaction process

# Determine the optimal number of Broker/Dealers covering your account

- Size of portfolio
- Diversity and complexity of portfolio
- Size and time constraints of investment staff

# Should you have a formal approval process?

## ■ Pros

- Disciplined process for gathering, evaluating and comparing information on Broker/Dealers
- Provides screening process for cold calls
- Involves oversight committee or council in process

## ■ Cons

- Less flexible

# The Broker/Dealer Questionnaire: What can it tell you?

- Size, type and capitalization of the firm
- Types of products and services provided
  - Areas of strength or focus
- Institutional operational capabilities
- Individual broker's experience and expertise in the public sector and related products
- Firm's experience with public agencies
- Sanctions or disciplinary actions

# Developing an Effective Relationship

# Communicate:

- How you want to be covered-frequency, type and timing of calls and emails
- Your agency's needs: trade execution, types of securities, research and analysis, education
- Your investment philosophy and strategy
- Your investment objectives and constraints

# Expect from your Broker:

- To know and understand your specific investment philosophies, strategies, objectives and constraints
- Appropriate timing and frequency of calls and emails
- Expertise in products and strategies used by Public agencies
- Accessibility during market hours (including backup coverage)

# Other important considerations

- Meet in person periodically
- Monitor and Review Coverage
- Give Feedback

# Operational Requirements

What does a Broker/Dealer need from you?

- Delivery and money wire instructions
- Cut-off times
- Contact information for investment staff
- Trading Authorization
- Investment Policy
- CAFR
- Procedure for trade confirmation
- Emergency contact information
- Investment Portfolio

# Operational Requirements

What do you need from the Broker/Dealer?

- Delivery and money wire instructions
- Cut-off times
- Back-up sales coverage , operational staff and their contact information
- Financial statements
- Investment Policy Certification
- Trade confirmation

# Broker/Dealer Compensation: Does it matter to you?

- Your primary objective – to get securities that fit your needs at a competitive price
- A general understanding can provide insight into the coverage process and can help you manage the allocation of transactions to your agency's best interest

# How is Broker compensation structured?

- Salary/Bonus
- Transaction based sales credit
- Either way a salesperson's compensation is largely driven by their sales revenue production
- Payout- the % of gross sales revenue paid to the salesperson

# New Issue Market Compensation

- Issuer pays a concession to the underwriting dealer and the salesperson is paid a portion of it
- Customer purchases security at syndicate price

# Secondary Market Compensation

- Broker/Dealer firm revenue is a function of the bid/offer spread and the salesperson receives a portion of the revenue
- The trading desk does not necessarily make money on every trade and can lose
- Technically not called a commission – which is a fee charged for executing trades
- Some general rules pertaining to bid/offer spreads and compensation:
  - Longer maturities = >compensation
  - Less liquid securities = >compensation
  - More complex securities = >compensation

# The Transaction Process

# Determine how many and which Broker/Dealer's to use

Factors to consider:

1. Type of Security and specific broker/dealer strengths
2. Access to current market prices and electronic trading platforms
3. Bid/offer in competition or "work an order"

Provide advance notice, if possible, and segment process into workable portions

# Communicate inquiry as specifically as possible

- Prioritize objectives and constraints
  - Size and type of security
  - Maturity or duration
  - Yield and/or spread (to what)
  - Coupon, dollar price or accrued interest constraints
  - Call options and types
  - Credit rating constraints
  - Settlement preferences or requirements
  - Issuer and sector limitations and preferences
  - Communicate time bids or offers are due and how they should be presented (price, yield type, spread, pickup)

# What happens on the other end of the phone?

- Salesperson
  - Communicates inquiry to liaisons and traders
  - Canvases secondary inventories and new issues
  - Determines best available alternatives
  - Gets current pricing from traders
  - Presents offers or bids to customer
  - All is subject to change until confirmed with trader

# Doing The Trade

- Organize offers or bids to compare and select
- Update pricing if necessary
- Consummate the transaction
  - Take your time
  - Be careful and thorough
  - Speak clearly
  - Terminology – bid/offer
  - Confirm specifics: size (be specific), security description, price and yield, settlement date (cash, reg, skip, corp or ?)
  - Have broker repeat
- Conduct separate paper or electronic verification of trade details
- Typical Bloomberg screens:
  - Security description
  - Trade ticket
  - Credit profile
  - Call schedule
  - Bond payment schedule

**SECURITY DESCRIPTION**

Page 1/ 1

GEN ELEC CAP CRP GE 6 1/8 02/22/11 103.580/103.580 (5.18/5.18) TRAC

ISSUER INFORMATION		IDENTIFIERS	1) Additional Sec Info 2) ALLQ 3) TRACE Trade Recap 4) Corporate Actions 5) Cds Spreads/RED Info 6) Ratings 7) Custom Notes 8) Identifiers 9) Fees/Restrictions 10) Prospectus 11) Involved Parties 12) Issuer Information 13) Pricing Sources 14) MTN Drawdown 15) Related Securities 16) Issuer Web Page  65) Old DES 66) Send as Attachment
Name GENERAL ELEC CAP CORP		Common 012512759	
Type Diversified Finan Serv		ISIN US36962GWB66	
Market of Issue Global		CUSIP 36962GWB6	
SECURITY INFORMATION		RATINGS	
Country US Currency USD		Moody's Aaa	
Collateral Type Notes		S&P AAA	
Calc Typ( 1)STREET CONVENTION		Composite AAA	
<b>Maturity 2/22/2011</b> Series MTNA		ISSUE SIZE	
<b>NORMAL</b>		Amt Issued/Outstanding	
<b>Coupon 6 1/8 Fixed</b>		USD 1,825,000.00 (M)/	
<b>S/A 30/360</b>		USD 1,825,000.00 (M)	
Announcement Dt 2/14/01		Min Piece/Increment	
Int. Accrual Dt 2/21/01		1,000.00/ 1,000.00	
1st Settle Date 2/21/01		Par Amount 1,000.00	
1st Coupon Date 8/22/01		BOOK RUNNER/EXCHANGE	
Iss Pr 99.7490		LEH	
SPR @ ISS 104.00 vs T 5 02/15/11		TRACE	
HAVE PROSPECTUS DTC			

ISS'D UNDER GLOBAL MTN PROG. LONG 1ST CPN. SERIES A. ADDL \$350MM ISS'D 5/7/02.

Australia 61 2 9777 8600

Brazil 5511 3048 4500

Europe 44 20 7330 7500

Germany 49 69 920410

Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2006 Bloomberg L.P.  
2 30-Oct-06 15:47:05

Backpage

N208 Corp BXT

Enter <1><GO> to send screen via <MESSAGE> System.

10/30/2006 15:47

## TRADE TICKET

AS OF: 10/30/06

ISIN US36962GWB66

36962GWB6

DATED 2/21/01

TRADER JOHN DOE

At CITY OF ABC

BUY 5000 M OF GE 6 1/8 02/22/11

MIN PIECE= 1000 INCREMENT= 1000 \* GEN ELEC CAP CRP\*

PRICE 103.8700000 YIELD 5.109874 to Worst 2/22/11 100

SETTLEMENT ON 11/ 2/06

Ratings: Moody's: Aaa S&P: AAA Comp: AAA

SEDOL 2737072

NOTES:

{36962GWB Corp DES<GO>}

VIEW AMOUNTS IN USD @ 1.000000000(US /US ) INVERT? Highlights off? Y

## TRADE NUMBERS

PRINCIPAL	\$	5,193,500.00
ACCRUED ( 70 DAYS )		59,548.61
TOTAL	\$	5,253,048.61

Australia 61 2 9777 8600

Brazil 5511 3048 4500

Europe 44 20 7330 7500

Germany 49 69 920410

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2 30-Oct-06 15:50:05

<HELP> for explanation, <MENU> for similar functions.  
Document gedes.tif upload complete. PFM<GO> to view.

N208Msg:J.VERTERAMO

Related Functions	Company Tree Ratings	CREDIT PROFILE
-------------------	----------------------	----------------

### General Electric Capital Corp

Page 1/1

Select 'Company Tree Ratings' above for related companies

#### MOODY'S

- |                          |        |
|--------------------------|--------|
| 1) GE 6 '8 02/22/11      | Aaa    |
| 2) Outlook               | STABLE |
| 3) Issuer Rating         | Aaa    |
| 4) Senior Secured Debt   | Aaa    |
| 5) Senior Unsecured Debt | Aaa    |
| 6) Subordinated Debt     | Aaa    |
| 7) Preferred Stock       | Aa2    |
| 8) Short Term            | P-1    |

#### STANDARD & POOR'S

- |                              |        |
|------------------------------|--------|
| 9) GE 6 '8 02/22/11          | AAA    |
| 10) Outlook                  | STABLE |
| 11) LT Foreign Issuer Credit | AAA    |
| 12) LT Local Issuer Credit   | AAA    |
| 13) ST Foreign Issuer Credit | A-1+   |
| 14) ST Local Issuer Credit   | A-1+   |

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2 30-Oct-06 15:47:21

FREDDIE MAC FHLMC 5.45 11-08 100.0345/100.0345 (5.43/5.43) BFV @15:51

**CALL SCHEDULE**

ONCE ONLY CALL MIN 5 BUSINESS DAYS NOTICE Call Page 1/ 1  
MAY BE CALLED IN FULL (ONLY)

**\*\*CALLABLE ONLY ON DATE(S) SHOWN\*\***

Date	Price	Date	Price	Date	Price
9/ 2/08	100				



to return to main DES page.



only one page

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410  
Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2006 Bloomberg L.P.  
2 30-Oct-06 15:52:21

<HELP> for explanation.

N208 Corp CSHF

CUSIP:36962GWB6 **BOND PAYMENT SCHEDULE** Page 1/ 1  
GEN ELEC CAP CRP GE 6 1/8 02/22/11 103.580/103.580 (5.18/5.18) TRAC

PRICE **103.870000** SETTLEMENT DATE **11/ 2/06** ISSUE 2/21/01 MATURITY 2/22/11  
YIELD **5.1099** to **M** Maturity on **2/22/11** @ **100.000000**  
FACE AMOUNT **5000.00 M**

Display ☒ C=Cashflow or P=Present Value @  % compounded  2/YR

DATE	INTEREST	PRINCIPAL	DATE	INTEREST	PRINCIPAL
2/22/07	153125.00	0.00			
8/22/07	153125.00	0.00			
2/22/08	153125.00	0.00			
8/22/08	153125.00	0.00			
2/22/09	153125.00	0.00			
8/22/09	153125.00	0.00			
2/22/10	153125.00	0.00			
8/22/10	153125.00	0.00			
2/22/11	153125.00	5000000.00			

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410  
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2 30-Oct-06 15:50:46

## YIELDS TO CALL

Page 1 of 1

FREDDIE MAC FHLMC 5.45 11-08 100.0345/100.0345 (5.43/5.43) BFV @15:52  
 Settlement Date **10/31/2006** Price **100.1430** CUSIP: 3128X5JJ  
 Yield To Maturity 9/ 2/2011 @REDM 100 **5.414**  
 Yield to Custom **9/ 2/2008** @REDM **100** **5.362** blend **N** wght **0.0%**  
 Yield to Next Call 9/ 2/2008 @REDM 100 **5.362** **CONV Duration**  
 Yield To Refunding 9/ 2/2008 @REDM 100 **5.362** **& Risk Calc**  
 Yield to Worst Call 9/ 2/2008 @REDM 100 **5.362** B.A.Yield

Date	Price	Yield	Treas Curve	Treas Spread	Adjusted Duration	Risk Factor
9/ 2/08	100.0000	5.362	4.793	0.570	1.714	1.732
9/ 2/11	100.0000	5.414	4.636	0.778	4.169	4.213

# Security Specifics and Idiosyncrasies

## Treasuries and Agency Benchmarks

- Large, liquid issues readily available from most Broker/Dealers
- Minimal price variation and tight bid/offer spreads
- Treasuries offered on price in 32's
- Agency benchmarks offered on spread to OTR treasury
- Not as inventory dependent
- Dealer could have an ax
- To obtain competitive pricing check current market levels and/or put dealers in competition

<HELP> for explanation, <MENU> for similar functions.

N208 Corp **PX1**

Hit PAGE FWD for off-the-run Bills, Notes, and Bonds.

15:54

## CURRENTS/WHEN ISSUED

**Bloomberg**  
GENERIC

### TREASURY BILLS

1)1Mo	11/24/06	↑	5.07/ 6	5.15	+ .01
2)3Mo	1/25/07	↓	4.95/94	5.07	- .02
3)WIB	2/01/07	↓	4.97/95	5.08	- .02
4)6Mo	4/26/07	↓	4.96/95	5.14	+ .01
5)WIB	5/03/07	↓	4.96/94	5.14	- .02

### NOTES/BONDS

6) 4 <sup>7</sup> / <sub>8</sub>	8/08	↑	100-03+/05+	4.77	- 00+
7) 4 <sup>5</sup> / <sub>8</sub>	9/08	↑	99-22+/24+	4.75	- 00+
8) 4 <sup>7</sup> / <sub>8</sub>	10/08	2yr	↑100-07 /07+	4.75	- 00+
9) 4 <sup>1</sup> / <sub>2</sub>	2/09	↑	99-16 /18	4.70	+ 00+
10) 4 <sup>7</sup> / <sub>8</sub>	5/09	↑	100-12+/14+	4.68	--
11) 4 <sup>7</sup> / <sub>8</sub>	8/09	3yr	↑100-15 /15+	4.69	- 00+
12) 4 <sup>5</sup> / <sub>8</sub>	8/11	↑	99-28+/30+	4.63	+ 00+
13) 4 <sup>1</sup> / <sub>2</sub>	9/11	↑	99-11 /13	4.64	+ 00+
14) 4 <sup>5</sup> / <sub>8</sub>	10/11	5yr	↑ 99-30+/31	4.63	--

15) 4 <sup>1</sup> / <sub>2</sub>	2/16	↑	98-23 /25	4.66	+ 02+
16) 5 <sup>1</sup> / <sub>8</sub>	5/16	↓	103-14 /16	4.67	+ 02
17) 4 <sup>7</sup> / <sub>8</sub>	8/16	10yr	↑101-19 /20	4.67	+ 01+
18) 6 <sup>1</sup> / <sub>4</sub>	5/30	↓	119-22+/24+	4.83	+ 05
19) 5 <sup>3</sup> / <sub>8</sub>	2/31	↓	107-19 /21	4.84	+ 05+
20) 4 <sup>1</sup> / <sub>2</sub>	2/36	30yr	↓ 95-17+/18+	4.78	+ 05+
21)TII	5 YR	↑	99-06+/08+	2.55	- 04
22)TII	10 YR	↑	100-29 /31	2.39	- 03+
23)TII	20 YR	↓	94-24 /26	2.34	- 02

### OTHER MARKETS

24)US Long(CBT)	15:01	s	111-29	+ 02
25)10Y Fut(CBT)	15:00	s	107-24	--
26)EURO\$ (IMM)	15:42	↑	94.745	+ .005
27)S&P 500 Ind	15:54	↑	1377.67	+ .33
28)NASDAQ Comp	15:54	↓	2363.21	+12.59
29)DowJones Ind	15:54	↓	12086.90	-3.36
30)Gold (CMX)	15:22	↑	606.40	-1.00
31)Crude Oil	15:23	↑	58.41	-2.34

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## U.S. AGENCIES

## ON-THE-RUN

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&lt; &gt; 15:54

2 YEAR			10 YEAR		
1) T47 <sub>8</sub> 008	100-07 / 100-07 <sub>3</sub> <sub>8</sub>	4.759 - 4.753	18) T47 <sub>8</sub> 816	101-19 / 101-19+	4.669 - 4.667
2) FHLB 5 <sub>1</sub> <sub>8</sub> 608	5.029 - 5.013	27.0 / 26.0	19) FHLB 5 <sub>1</sub> <sub>4</sub> 614	4.966 - 4.939	29.7 / 27.2
3) FHLB 5 <sub>1</sub> <sub>8</sub> 808	5.004 - 4.988	24.5 / 23.5	20) FHLMC4 <sub>3</sub> <sub>8</sub> 715	4.987 - 4.967	31.8 / 30.0
4) FNMA 5 908	4.980 - 4.964	22.1 / 21.1	21) FNMA 4 <sub>3</sub> <sub>8</sub> 015	4.985 - 4.963	31.6 / 29.6
5) FHLMC 5 908	4.984 - 4.968	22.5 / 21.5	22) FHLMC4 <sub>3</sub> <sub>4</sub> N15	4.988 - 4.972	31.9 / 30.5
3 YEAR			23) FHLMC4 <sub>3</sub> <sub>4</sub> 116	5.005 - 4.988	33.6 / 32.1
6) T47 <sub>8</sub> 809	100-15 <sub>1</sub> <sub>8</sub> / 100-15 <sub>5</sub> <sub>8</sub>	4.690 - 4.684	24) FNMA 5 316	5.010 - 4.993	34.1 / 32.6
7) FHLMC5 <sub>1</sub> <sub>4</sub> 509	4.932 - 4.916	24.2 / 23.2	25) FHLMC5 <sub>1</sub> <sub>4</sub> 416	5.008 - 4.991	33.9 / 32.4
8) FNMA 5 <sub>3</sub> <sub>8</sub> 809	4.928 - 4.912	23.8 / 22.8	26) FHLB 5 <sub>3</sub> <sub>8</sub> 516	5.005 - 4.988	33.6 / 32.1
9) FHLB 5 909	4.935 - 4.919	24.5 / 23.5	27) FNMA 5 <sub>3</sub> <sub>8</sub> 716	5.012 - 4.995	34.3 / 32.8
10) FNMA 3 <sub>7</sub> <sub>8</sub> 210	4.918 - 4.904	22.8 / 22.0	28) FHLMC5 <sub>1</sub> <sub>2</sub> 716	5.019 - 5.002	35.0 / 33.5
5 YEAR			29) FNMA 5 <sub>1</sub> <sub>4</sub> 916	5.023 - 5.006	35.4 / 33.9
11) T4 <sub>5</sub> <sub>8</sub> 011	99-30 <sub>3</sub> <sub>4</sub> / 99-31	4.634 - 4.632	30) FHLMC5 <sub>1</sub> <sub>8</sub> 016	5.022 - 5.010	35.3 / 34.3
12) FHLMC5 <sub>1</sub> <sub>4</sub> 711	4.953 - 4.936	31.9 / 30.4	30 YEAR		
13) FHLB 5 <sub>3</sub> <sub>8</sub> 811	4.951 - 4.934	31.7 / 30.2	31) T4 <sub>1</sub> <sub>2</sub> 236	95-17 <sub>3</sub> <sub>8</sub> / 95-18 <sub>1</sub> <sub>8</sub>	4.784 - 4.782
14) FNMA 5 011	4.946 - 4.926	31.2 / 29.4	32) FNMA 7 <sub>1</sub> <sub>4</sub> 530	5.199 - 5.157	41.5 / 37.5
15) FNMA 4 <sub>3</sub> <sub>8</sub> 313	4.943 - 4.923	30.9 / 29.1	33) FNMA 6 <sub>5</sub> <sub>8</sub> N30	5.188 - 5.170	40.4 / 38.8
16) FHLMC4 <sub>1</sub> <sub>2</sub> 713	4.947 - 4.930	31.3 / 29.8	34) FHLMC6 <sub>3</sub> <sub>4</sub> 331	5.185 - 5.167	40.1 / 38.5
17) FHLB 4 <sub>1</sub> <sub>2</sub> 913	4.972 - 4.955	33.8 / 32.3	35) FHLMC6 <sub>1</sub> <sub>4</sub> 732	5.185 - 5.143	40.1 / 36.1

T/ACT	BILLS	T/0-1	T/1-2	T/2-5	T/5-10	T/10-20	T/20-30	TIPS	STRIPS	AG/OTR	AGENCIES	CURVES	TBA30	TBA15
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**YIELD & SPREAD ANALYSIS**

CUSIP3133XGH4 PCS BGN

FED HOME LN BANK FHLB 5 '8 08/08 100.1800/100.2000 (5.01/5.00) BGN @16:02  
 SETTLE 10/31/06 FACE AMT 1000 M or PROCEEDS 1,014,766.55

1) YA	YIELDS	2) YASD
PRICE	100.223877 No Rounding N	
YIELD	4.986 %	
SPRD	23.50 bp yld-decimals 3/3	
versus		
2yr	T 4 '8 10/31/08	BENCHMARK
PRICE	100-7+	Save Delete
YIELD	4.751 %	sd: 10/31/06

RISK & HEDGE RATIOS	FHLB 5 '8 08/08/	HEDGE BOND
	workout	OAS
	8/ 8/08	OAS
Mod Dur	1.66	1.65
Risk	1.680	1.676
Convexity	0.04	0.04
Workout HEDGE Amount:	889 M	
OAS HEDGE Amount:	888 M	

Yields are: Semi-Annual

3) OAS	SPREADS	4) ASW
OAS:	19.3 CRV# I111 VOL 14.00pt	
OAS:	-19.8 CRV# I52 TED: 19.0	
ASW (A/A)	-19.9 ZSPR -20.2	11) History
CRV# I52	US \$ SWAP 30/360	
ISPRD -19.9	DSPRD -20.2	
Yield Curve: I25 US TREASURY ACTIVES		
+ 18	v 1.8yr ( 4.810 %)	INTERPOLATED
+ 35	v 5yr ( 4.63) T 4 '8 10/31/11	
+ 32	v 10yr ( 4.67) T 4 '8 08/15/16	
+ 21	v 30yr ( 4.78) T 4 '2 02/15/36	

5) FPA	FINANCING
Repo%	5.210 (360/365) 360 Days 1
Int Income	0.00 Carry P&L
Fin Cost	-146.86 -146.86
Amortiz	0.00<-> -146.86
Forwrd Prc	100.238563
Prc Drop	-0.014686
Drop (bp)	-0.87
Accrued Interest /100	1.252778
Number Of Days Accrued	88

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3 30-Oct-06 16:02:31

# Agency Bullet and Callable Securities

- Inventory specific or New Issue
- Smaller issue size = more yield, wider bid/offer
- Greater potential price variation
- Obtaining several offers on exact same security difficult – resulting in need to compare similar securities
- Maturities 1yr and shorter offered on money market yield
- Longer than 1yr offered on spread to “on the run” treasuries
- Callables offered on price or spread or OAS or AOAS
- Reverse Inquiry Possible

<HELP> for explanation.

P233 Corp ME

## MONEY MARKET EQUIVALENT CALCULATOR

FED HOME LN BANK FHLB 3 <sup>3</sup>/<sub>4</sub> 08/07 98-28/98-30 (5.26/5.16) BGN @14:20

SETTLEMENT DATE 11/ 8/06

WORKOUT DATE 8/15/07 ( = 280 Days)

PRICE 98.929011

WORKOUT PRICE 100.000000

YIELD TO WORKOUT 5.180

MONEY MARKET DAYTYPE 2

(1=ACT/ACT, 2=ACT/360, 3=ACT/365, 4=30/360)

FACE AMOUNT(1M) 1000

EQUIVALENTS: PROCEEDS, BULLET

ACCRUED INTEREST = 8645.83

MED TERM CD B

PRESENT VALUE = 997935.94

BULLET MONEY MARKET EQUIVALENT = 5.160

Bump all pay dates  
for weekends  
and holidays: ☒

Enter reinvestment rates for each payment received.

Calendar: US United States

FUTURE VALUE

PAY DATE	CASH FLOW	RATE
2/15/07	18750.00	5.16
8/15/07	1018750.00	0
		0

TO 8/15/07
19236.44
1018750.00

TOTALS 1037500.00

1037986.44

NOTE: Re-enter SETTLEMENT date for reinvestment rate = MM equivalent

Australia 61 2 9777 8600

Brazil 5511 3048 4500

Europe 44 20 7330 7500

Germany 49 69 920410

Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000

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G994-409-2 07-Nov-06 14:26:00

**SECURITY DESCRIPTION**

Page 1/ 2

FREDDIE MAC FHLMC 5.45 11-08 100.0345/100.0345 (5.43/5.43) BFV @15:51

ISSUER INFORMATION		IDENTIFIERS	1) Additional Sec Info 2) Call Schedule 3) ALLQ 4) Corporate Actions 5) Cds Spreads/RED Info 6) Ratings 7) Custom Notes 8) Identifiers 9) Fees/Restrictions 10) Prospectus 11) Involved Parties 12) Pricing Sources 13) Related Securities 14) Issuer Web Page  65) Old DES 66) Send as Attachment
Name FREDDIE MAC		Common 026660963	
Type Sovereign Agency		ISIN US3128X5JJ81	
Market of Issue Global		CUSIP 3128X5JJ8	
SECURITY INFORMATION		RATINGS	
Country US Currency USD		Moody's Aaa	
Collateral Type Notes		S&P AAA	
Calc Typ( 1)STREET CONVENTION		Fitch AAA	
<b>Maturity 9/ 2/2011 Series</b>		Composite AAA	
<b>CALLABLE CALL 9/ 2/08@ 100.00</b>		ISSUE SIZE	
<b>Coupon 5.45 Fixed</b>		Amt Issued/Outstanding	
<b>S/A 30/360</b>		USD 1,400,000.00 (M)/	
Announcement Dt 8/24/06		USD 1,400,000.00 (M)	
Int. Accrual Dt 8/30/06		Min Piece/Increment	
1st Settle Date 8/30/06		100,000.00/ 1,000.00	
1st Coupon Date 3/ 2/07		Par Amount 100,000.00	
Iss Pr 100.0000		BOOK RUNNER/EXCHANGE	
HAVE PROSPECTUS DTC		C,GS,UBS	

LONG 1ST CPN. BOOK-ENTRY.

Australia 61 2 9777 8600      Brazil 5511 3048 4500      Europe 44 20 7330 7500      Germany 49 69 920410  
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 2 30-Oct-06 15:52:05

<HELP> for explanation.

N208 Corp AOAS

## AGENCY OPTION-ADJUSTED SPREAD

FED HOME LN BANK FHLB5.4 09/12/07 99.9497/ 99.9497 (5.45/5.45) BFV @16:16

Calculate (P,O,V) **P** **Price** P) **100.003469** **OAS (bp)** O) **+ 4.00** **Volatility** V) **12.34**

Cusip / ID# 3133XGT79 Option Px Value: 0.16

Settle **10/31/2006** Bench settle **10/31/2006**

Spread **25.4**bp vs **6M0** **B 0 04/26/07 Govt** @**4.94** (**5.133**)

{NUM}<GO> for:  
B) Call Schedule  
3/12/ 7 100.00

	OAS Method	Option Free	To Call on 3/12/2007	To Mty
Yld		5.193	<b>5.351</b>	<b>5.387</b>
Sprd		3.9	<b>10.2</b>	<b>23.3</b>
M Dur	0.50		0.36	0.83
Risk	0.50		0.36	0.84
Cnvx	-0.33		0.00	0.01

Model ☐ L=Lognormal

Exercise Premium **0.00**

\*Curve Source **BBAG** Bloomberg Agency Composite

2) Customize  
Curve **I267** Semi  
BMA-FHLMC REFEREN  
Dated **10/30/2006**  
Settle 10/31/2006

**A** BMA CMT  
Shift **+0**(bps)

\*Yield Adjust

3m	<b>5.237</b>	<b>0.3</b>
6m	<b>5.260</b>	<b>-0.1</b>
1y	<b>5.128</b>	<b>-1.2</b>
2y	<b>4.976</b>	<b>-1.1</b>
3y	<b>4.923</b>	<b>-1.5</b>
4y	<b>4.920</b>	<b>0.1</b>
5y	<b>4.946</b>	<b>0.6</b>
7y	<b>4.957</b>	<b>0.0</b>
10y	<b>5.017</b>	<b>0.1</b>
20y	<b>5.091</b>	<b>1.9</b>
30y	<b>5.166</b>	<b>3.6</b>

88) REFRESH

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# Corporate Securities

- Inventory specific or New Issue
- Issue size affects liquidity
- Obtaining several offers on exact same security can sometimes be difficult resulting in need to compare similar securities
- 1yr and shorter maturities offered on spread to Libor
- Longer than 1yr offered on spread to OTR, actuals or comps
- Important to make “apples to apples” comparison

# 0-14 Month Corporate Inventory

\*\*\*\*\*

## CORPORATES:

SIZE-MM	TICKER	SECURITY	DESC	CPN	MATURITY	MOODY	S&P	OFFER	COMMENT
*1.0	ULVR	UNILEVER NV		5.125	12/20/06	P1/A1	A1/A+	L - 5	EURO
*1.0	HSBC	HSBC BANK		5.75	1/30/07	P1/Aa3	A1+/AA-	L - 7	
*2.0	AIG	AMER GENL FIN		5.75	3/15/07	P1/A1	A1/A+	L - 6	
*1.0	GE	GENERAL ELECT		5.375	3/15/07	P1/Aaa	A1+/AAA	L - 9	
*10.0	CHVPHC	CHEVRON PHILLIPS		5.375	6/15/07	P2/Baa1	A2/BBB+	L + 3	
*10.0	FFCORP	FIVE FINANCE		5.70	6/28/07	P1/Aaa	-/AAA	L - 7	f1+/aaa fitch rated
*4.25	PRU	PRUDENTIAL INS		7.65	7/01/07	P1/A2	A1/A	L - 4	144A
*3.65	BRK	BERKSHIRE HATHWAY		3.40	7/02/07	P1/Aaa	A1+/AAA	L - 9	
2.0	FFCORP	FIVE FINANCE		5.70	7/03/07	P1/Aaa	-/-	L - 3	f1+/aaa fitch rated
*2.0	NOC	TRW INC		6.73	7/11/07	P2/Baa2	A2/BBB+	L + 7.5	
*1.0	FD	MAY DEPT. STORE		3.95	7/15/07	P2/Baa1	A2/BBB	L + 12.5	
*4.5	SPLS	STAPLES INC		7.125	8/15/07	P2/Baa2	A2/BBB	L + 8	DP
*2.483	DUK	PSI ENERGY		7.85	10/15/07	P2/Baa1	A2/BBB	L + 8	
*1.0	UNP	UNION PACIFIC		6.79	11/09/07	P2/Baa2	A2/BBB	L + 5	
*2.60	DIAG	DIAGEO CAPITAL		3.50	11/19/07	P2/A3	-/A-	L - 0	FITCH RATED F1/A+
*1.0	NAB	NATL AUSTRILA BK		6.60	12/10/07	P1/A1	A1+/A+	L - 6	

**SECURITY DESCRIPTION**

Page 1/ 1

GEN ELEC CAP CRP GE 6 1/8 02/22/11 103.580/103.580 (5.18/5.18) TRAC

ISSUER INFORMATION		IDENTIFIERS	1) Additional Sec Info 2) ALLO 3) TRACE Trade Recap 4) Corporate Actions 5) Cds Spreads/RED Info 6) Ratings 7) Custom Notes 8) Identifiers 9) Fees/Restrictions 10) Prospectus 11) Involved Parties 12) Issuer Information 13) Pricing Sources 14) MTN Drawdown 15) Related Securities 16) Issuer Web Page  65) Old DES 66) Send as Attachment
Name GENERAL ELEC CAP CORP		Common 012512759	
Type Diversified Finan Serv		ISIN US36962GWB66	
Market of Issue Global		CUSIP 36962GWB6	
SECURITY INFORMATION		RATINGS	
Country US Currency USD		Moody's Aaa	
Collateral Type Notes		S&P AAA	
Calc Typ( 1)STREET CONVENTION		Composite AAA	
<b>Maturity 2/22/2011</b> Series MTNA		ISSUE SIZE	
<b>NORMAL</b>		Amt Issued/Outstanding	
<b>Coupon 6 1/8 Fixed</b>		USD 1,825,000.00 (M)	
<b>S/A 30/360</b>		USD 1,825,000.00 (M)	
Announcement Dt 2/14/01		Min Piece/Increment	
Int. Accrual Dt 2/21/01		1,000.00/ 1,000.00	
1st Settle Date 2/21/01		Par Amount 1,000.00	
1st Coupon Date 8/22/01		BOOK RUNNER/EXCHANGE	
Iss Pr 99.7490		LEH	
SPR @ ISS 104.00 vs T 5 02/15/11		TRACE	
HAVE PROSPECTUS DTC			

ISS'D UNDER GLOBAL MTN PROG. LONG 1ST CPN. SERIES A. ADDL \$350MM ISS'D 5/7/02.

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Brazil 5511 3048 4500

Europe 44 20 7330 7500

Germany 49 69 920410

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EDSF

Delayed monitoring enabled

N208M\$g:SANDY PAUL

n &lt;Page&gt; to scroll contracts, n &lt;Go&gt; for history, 98 &lt;Go&gt; to save defaults

**IMM EURODOLLAR SYNTHETIC FORWARD RATES**

17:26	Date	Days	IMM	Last	NRate	6-Mo	1-Yr	2-Yr	18-Mo	7-Yr	10-Yr
Spot strip	49	Front		94.6564	5.3436	5.381	5.334	5.140	5.214	5.219	5.352
1)	12/20/06	91	EDZ6	94.6250s	5.3750	5.353	5.277	5.104	5.163	5.219	5.356
2)	3/21/07	91	EDH7	94.7400s	5.2600	5.222	5.137	5.040	5.067	5.221	
3)	6/20/07	91	EDM7	94.8850s	5.1150	5.064	5.018	4.993	4.996	5.228	
4)	9/19/07	91	EDU7	95.0500s	4.9500	4.923	4.941	4.970	4.954	5.241	
5)	12/19/07	91	EDZ7	95.1650s	4.8350	4.847	4.913	4.973	4.945	5.261	
6)	3/19/08	91	EDH8	95.2000s	4.8000	4.839	4.922	4.995	4.962	5.287	
7)	6/18/08	91	EDM8	95.1800s	4.8200	4.859	4.948	5.026	4.991	5.314	
8)	9/17/08	91	EDU8	95.1600s	4.8400	4.885	4.978	5.058	5.024	5.341	
9)	12/17/08	91	EDZ8	95.1300s	4.8700	4.915	5.011	5.091	5.057	Exchanges: IMM, SMX  FRA and Bond yld: Daytype ACT/ACT Frequency S m-mkt yield	
10)	3/18/09	91	EDH9	95.1000s	4.9000	4.948	5.048	5.126			
11)	6/17/09	91	EDM9	95.0650s	4.9350	4.983	5.083	5.158			
12)	9/16/09	91	EDU9	95.0300s	4.9700	5.021	5.118	5.191			
13)	12/16/09	91	EDZ9	94.9900s	5.0100	5.054	5.151	5.220			
14)	3/17/10	91	EDH0	94.9650s	5.0350	5.085	5.185	5.250			

Start	End	days	years	Front	stub	Back	stub	Bond yield	ACT/360
<b>11/ 1/06</b>	<b>3/15/07</b>	<b>134</b>	<b>0.37</b>	<b>5.34%</b>	49 days	<b>5.37%</b>	85 days	<b>5.485</b>	5.387
<b>11/ 1/06</b>	<b>11/ 1/07</b>	<b>365</b>	<b>1.00</b>	<b>5.34%</b>	49 days	<b>4.93%</b>	43 days	<b>5.341</b>	5.334
<b>11/ 1/06</b>	<b>11/ 1/07</b>	<b>365</b>	<b>1.00</b>	<b>5.34%</b>	49 days	<b>4.93%</b>	43 days	<b>5.341</b>	5.334
<b>11/ 1/06</b>	<b>11/ 1/07</b>	<b>365</b>	<b>1.00</b>	<b>5.34%</b>	49 days	<b>4.93%</b>	43 days	<b>5.341</b>	5.334
<b>11/ 1/06</b>	<b>11/ 1/07</b>	<b>365</b>	<b>1.00</b>	<b>5.34%</b>	49 days	<b>4.93%</b>	43 days	<b>5.341</b>	5.334

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**YIELD ANALYSIS**

CUSIP:36962GXY

GEN ELEC CAP CRP GE 5 <sup>3</sup>/<sub>8</sub> 03/15/07 100.050/100.050 (5.20/5.20) TRAC**PRICE** **100.014795** **SETTLEMENT DATE** **11/ 2/2006**current yield 5.374 ☒ DRST**YIELD** MATURITY **3/15/2007****CALCULATIONS** 3/15/2007 @ **100.000**STREET CONVENTION **5.297** **5.297**U.S. GOVT EQUIVALENT **5.326** 5.326TRUE YIELD **5.297** 5.297EQUIVALENT **1**/YR COMPOUND **5.386** **5.386**JAPANESE YIELD (SIMPLE) **5.333** 5.333PROCEEDS/MMKT(ACT/**360**) **5.297** 5.297

A F T E R T A X :

INCOME **35.00**% CAPITAL **20.00**% 3.445 3.445**CASHFLOW ANALYSIS**TO 3/15/07 WORKOUT **1000M** FACE**PAYMENT INVOICE**

PRINCIPAL 1000147.95

47 DAYS ACCRUED INT 7017.36

TOTAL 1007165.31

**I N C O M E**

REDEMPTION VALUE 1000000.00

COUPON PAYMENT 26875.00

INTEREST @ **5.201**% 0.00

TOTAL 1026875.00

**R E T U R N**

GROSS PROFIT 19709.69

RETURN (CD-ACT/360) 5.297

**FURTHER ANALYSIS**

HIT 1 &lt;GO&gt; TOTAL RETURN

HIT 2 &lt;GO&gt; PRICE TABLE

**SENSITIVITY ANALYSIS**☒ CONV DURATION (YEARS) 0.369 0.369

ADJ/MOD DURATION 0.362 0.362

RISK 0.365 0.365

CONVEXITY 0.003 0.003

PRICE VALUE OF A **0.01** 0.00365 0.00365YIELD VALUE OF A **0.32** 0.08563 0.08563

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Brazil 5511 3048 4500

Europe 44 20 7330 7500

Germany 49 69 920410

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3 30-Oct-06 17:29:53

# Commercial Paper and Agency Discount Notes

- Inventory and New Issue
- Offered at a discount
- Must use like yield format to compare to other securities
- Reverse inquiry possible
- Consider having an approved issuer list for CP
- CP Direct offerings
- Discount note window – new issues

# Electronic Fixed Income Trading Platforms

- Bloomberg
  - BBT – Bloomberg Bond Trader
  - BOOM – Bloomberg Offerings on Money Markets
- Tradeweb – Treasuries, agencies, Euro-sovereigns and commercial paper
- Market Axess – Corporate Notes
- Pros: Efficient, competitive, provides paper trail
- Cons: Cost, lack of personal assistance, reliability/operational issues, no additional market color

# In Conclusion

- Have a clear understanding of what a Broker/Dealer is and how to ensure they are serving your interests
- Have a comprehensive view of the transaction process and how it varies from product to product
- Good Luck and Thank You!

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